

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 7810

BILL NUMBER: HB 1008

NOTE PREPARED: Jan 23, 2003

BILL AMENDED:

SUBJECT: Research Expense Tax Credit.

FIRST AUTHOR: Rep. Frenz

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill provides that the Research Expense Credit does not expire.

Effective Date: July 1, 2003.

Explanation of State Expenditures:

Explanation of State Revenues: *Research Expense Credit:* This bill makes the Research Expense Credit permanent. It is currently set to expire December 31, 2004. It is estimated that these changes will result in an additional revenue loss beginning in FY 2005 and years after.

Over the past few years, the current Research Expense Credit has ranged from \$9.2 M in FY 1996 to \$24.2 M in FY 1999. However P.L. 192-2002ss increased the credit to 10% and eliminated the apportionment formula. Consequently the cost of the base credit was estimated to increase by an additional \$47.9 M in FY 2004 and \$51.5 M in FY 2005 (for a full 12 months or \$24.8 M for 6 months due to the expiration of the credit in 2004). The total annual cost of the current credit is estimated to be \$72.1 M in FY 2004 and \$75.7 M in FY 2005. If this credit were to expire December 31, 2004, the revenue base could potentially increase by approximately \$37.85 M in FY 2005 (six months liability) and \$79 M in FY 2006. However, without this credit available, taxpayers' investment in research activities could significantly change and affect their base income tax liabilities. Research Expense Tax Credits affect revenue collections deposited in the General Fund.

It is difficult to estimate the exact impact of continuing this tax credit since it is dependent on both the amount of research expenses individual taxpayers make during the year and their total tax liability. With

additional incentives created for research and development activity based in the state of Indiana, the revenue loss from this credit could increase by an indeterminable amount. The credit provides \$100,000 for each \$1 M in new research expenses. Increased expenditures on research activities could also generate additional Adjusted Gross Income and Sales Tax revenue if these expenses are used to hire additional employees or purchase related equipment.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: Department of State Revenue.

Fiscal Analyst: Diane Powers, 317-232-9853